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11 October 1966

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## INTELLIGENCE MEMORANDUM

NEW ZEALAND TODAY

DIRECTORATE OF INTELLIGENCE

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CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence  
11 October 1966

INTELLIGENCE MEMORANDUM

New Zealand Today

Summary

New Zealand is a stable democracy patterned after the British parliamentary system. Its economy is substantially sound and expanding despite recurring balance-of-payments deficiencies caused by fluctuating world market prices for its few exports. As the country emerges from a geographically induced isolation, it is becoming less dependent on the United Kingdom's foreign policy guidance and is developing both a national and a regional identity. Heightened concern for its own security, resulting from recent developments in Southeast Asia and Britain's reduced defense commitments east of Suez, has led New Zealand generally to a greater emphasis on collective security and specifically to an increased dependence on the United States. At the same time, New Zealand recognizes and conducts a limited trade with Communist countries while subscribing to a policy of containing Communist expansion.

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Note: This is one of a series of memoranda produced by CIA on those countries to be visited by President Johnson. It was prepared by the Office of Current Intelligence and coordinated with the Office of National Estimates and the Office of Research and Reports.

A Stable Democracy

1. New Zealand's political structure is a simplified adaptation of the British parliamentary system. Executive authority is centered in a cabinet headed by a prime minister who is responsible to an 80-member unicameral parliament. The two major parties are the mildly conservative ruling National Party (NP), whose chief spokesman is Prime Minister Keith J. Holyoake, and the moderately left-of-center Labor Party (LP) led by Norman E. Kirk. The two parties differ more in theory than in practice, both having supported social legislation which has transformed the basically rural country into a welfare state.

The Economy

2. The economy relies heavily on a narrow range of exports, principally meat, dairy products, and wool. Periodic balance-of-payments crises are caused by fluctuating foreign market prices, especially in the United Kingdom, which buys almost half of New Zealand's exports. The country needs much greater diversity of export products and markets, and is handicapped by limited natural resources for industrial development. Despite these handicaps, the economy is generally stable and the per capita gross national product (GNP) of almost \$2,000 is among the highest in the world. The real growth in GNP was about five to six percent in fiscal 1965 and four to five percent in 1966. The government has developed one of the most comprehensive social welfare services in existence today, devoting about 40 percent of the national budget to this end.

National Elections

3. National elections, scheduled for next month, have produced some political maneuvering but very little popular enthusiasm. The powerful New Zealand Federation of Labor (FOL), the opposition LP's single strongest supporter, has called for the

withdrawal of New Zealand's troops from Vietnam. Privately opposing such a move, party leader Norman Kirk has argued for replacing the artillery batteries with noncombatant military personnel. Moreover, he advocated providing protection for New Zealanders engaged in noncombat services in Vietnam. The party conference adopted the FOL policy by an overwhelming vote of 360-64, but the LP thus far has not emphasized the question in its campaign.

4. The Holyoake forces, however, are reportedly poised to introduce and force the issue shortly before the elections. They expect to win strong public endorsement for their Vietnam policies and to create further disarray in opposition ranks. A substantial majority of New Zealanders appear to understand and accept the involvement in Vietnam, at least within its present modest limits.

5. LP strategy has been to focus on the country's "serious economic position." In late August, Kirk asserted that the "gathering clouds" of a balance-of-payments crisis were "casting a shadow over" the economy, and charged that the government was deliberately concealing the seriousness of the country's economic and financial position "to creep past the election hurdle." Whether LP strategy is sound remains to be seen, although public concern over the balance-of-payments situation appears to be growing. Much will depend on the state of foreign exchange reserves on election eve, on the government's ability to raise additional loans on acceptable terms from overseas sources if necessary, and on the impact on voters' pocketbooks of economic restraints being imposed by the government.

6. The NP under Prime Minister Holyoake probably will win its third three-year term in office, but with slightly less than its present 45-35 majority. The LP seems to have only an outside chance of coming to power, and then only if the balance-of-payments situation becomes critical and stimulates a popular feeling of "time for a change."

Defense and Foreign Policies

7. New Zealand's defense policies are in a state of metamorphosis, explained in part by the diminishing UK influence in Asia and by the gradual development of both a national and regional identity. Complacency and remoteness from world problems are giving way to a sense of involvement and a willingness to assume increased responsibilities for the security and stability of Asia and the Pacific.

8. Commonwealth, ANZUS, and SEATO membership, as well as geography, have contributed to New Zealand's general security. As a result, very little effort has been devoted to the development of a sophisticated defense system. The military establishment, numbering less than 13,000 men, has been heavily extended to support the country's military commitment in Southeast Asia, principally in Malaysia; there are only about 200 New Zealand personnel in Vietnam. The decision to withdraw overseas Commonwealth forces following the Indonesian-Malaysian ratification of the Bangkok Agreements of August 1966 will reduce the commitment in Malaysia, but New Zealand is expected to assume a larger responsibility for defense east of Suez as British responsibilities wane in the years ahead. This will necessitate a considerable increase in defense expenditures, but no move in this direction is anticipated until after the elections and after the balance-of-payments improves substantially. Only six percent of the budget and two percent of the GNP presently are allocated for defense expenditures.

9. Content with its insularity and remoteness, New Zealand subscribed fully to London's foreign policy guidelines until after World War II. Since that time dependence upon the UK has diminished somewhat, particularly in more recent years as New Zealand has come to rely more heavily upon the United States for protection. Like Britain, nonetheless, New Zealand pursues a policy of containment toward Communism while recognizing and conducting a

restricted trade with Communist countries. This trade is in such "nonstrategic" goods as hides, wool, fats, and oils, however, and the country's total exports to both Communist China and the Soviet Union during the past fiscal year amounted only to slightly over eight million dollars (less than one percent of New Zealand's total export trade).

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